

Questions for Commenters

The following discussion and questions are provided to guide users in commenting on the proposed 2006 revision of *Government Auditing Standards*. We encourage you to comment on these issues and any additional issues that you note. Please associate your comments with specific references to issue numbers and/or paragraph numbers in the proposed standards.

Chapter 1 – Use and Application of GAGAS

1. The section entitled, “Use of Terminology to Define Professional Requirements in GAGAS” was added to clarify the auditor’s responsibilities and to achieve consistency with other standard setting bodies. This new section is consistent with the AICPA Statement on Auditing Standards (SAS) No. 102, *Defining Professional Requirements in Statements on Auditing Standards* issued by the Auditing Standards Board (ASB) of the American Institute of CPAs (AICPA) and with the approach taken by the Public Company Accounting Oversight Board (PCAOB). GAGAS requirements have also been rewritten in accordance with the terminology set forth in this section. This approach is intended to clarify auditors’ responsibilities and assist auditors in applying the standards.

Please comment on the application and use of this terminology throughout the proposed revision to GAGAS.

2. The section entitled “Citing Compliance with GAGAS in the Auditor’s Report” was added to clarify auditor responsibilities and to provide guidance to auditors in situations where they are unable to follow or chose not to follow certain standards. Complementary guidance is also provided in chapters 5 and 8.

Please comment on the application and use of this guidance for citing compliance with GAGAS in auditors’ reports.

Chapter 2 – Auditor’s Ethical Responsibilities

3. Chapter 2 is devoted solely to emphasizing the ethical responsibilities of government auditors. In the 2003 revision, GAGAS made reference to ethical responsibilities throughout Chapter 1. This 2006 revision adds clarity and emphasis to the discussion of ethical responsibilities of government auditors to uphold and protect the public trust. This chapter employs a principles-based framework of concepts that government auditors use to guide all of their work.

Please comment on the framework discussed in this chapter.

Chapter 3 – General Standards

4. The discussion of nonaudit services and their impact on auditor independence has been significantly streamlined and reorganized from the 2003 revision of the standards to provide clarity. The discussion is in paragraphs 3.30 through 3.35. Additional information on nonaudit services that are generally unique to government audit organizations is presented in the appendix, paragraphs A3.02 through A3.03.

Please comment on the description and categorization of nonaudit services and their impact on auditor independence.

5. The section entitled “Quality Control and Assurance” has been expanded to describe the elements that should be present in an audit organization’s system of quality control. The addition of the specific elements is intended to strengthen the standards and to emphasize consistency of quality control standards among government audit organizations.

Please comment on the expanded discussion of audit quality and the related elements.

6. The section dealing with external peer review includes the following changes: (1) a transparency requirement that external audit organizations performing GAGAS audits make their results of an external peer review public, and (2) revision of peer review time frames based on risk and the underlying quality assurance system.

The transparency requirement is intended to increase accountability and emphasize the importance of quality for audit organizations that perform audits under GAGAS. The revisions to peer review time frames are risk based and emphasize quality and a rigorous annual inspection program. (The previous standard set the same requirement for all audit organizations, regardless of peer review results or the underlying quality assurance system.)

Please comment on the transparency requirements and the risk-based approach to peer review time frames.

Chapters 4 and 5 – Financial Audits

7. The audit documentation standard has been updated and expanded based on the ASB’s revised standard, SAS No. 103, *Audit Documentation*. Paragraphs 4.22 through 4.39 are consistent with the AICPA standard. Paragraphs 4.40 and 4.41 are additional GAGAS standards to deal with unique issues associated with auditing in the government environment. The use of these standards is consistent for attest engagements (chapter 6) and performance audits (chapter 7). The overall goal of these revisions was consistency with the ASB standard and among the different types of GAGAS audits.

Please comment on the adoption of this standard.

8. The financial audit reporting standards have been updated to conform with the ASB's and PCAOB's definitions of material weakness and significant deficiency in internal controls. The definitions and related guidance are provided in paragraphs 5.13 and 5.14. The overall goal of adopting these revised definitions is to achieve consistency with the other standards setters. These definitions may be further clarified in the future by the other standards-setters, and we will continue to work closely with them. The application of these new definitions could affect the number and type of internal control weaknesses reported in GAGAS audits.

Please comment on additional clarity or guidance that would assist in implementing these new definitions.

Chapters 7 and 8 – Performance Audits

9. The standards for performance audits have been significantly revised to include a specified level of assurance within the context of audit risk and significance (materiality).

The level of assurance for performance audits is defined in paragraph 1.35 and incorporated throughout the performance audit standards in chapters 7 and 8. The level of assurance for performance audits is achieved within the context of significance (materiality) and audit risk. The description of significance and audit risk is included in paragraphs 7.04 through 7.06, and the standards in chapters 7 and 8 have been written within this context.

Please comment on the discussion of levels of assurance, significance, audit risk, and their application throughout the performance audit standards.

10. Significant discussion has been added to chapters 7 and 8 about the level of evidence needed to achieve the audit objectives in a performance audit. This discussion uses the terminology "sufficient, appropriate evidence" for consistency with other auditing standards setters. The intent of the discussion of sufficient, appropriate evidence is to provide clarity and guidance for making professional judgments about the levels of evidence needed to achieve the audit objectives.

Please comment on the clarity of the standards and the discussion of sufficient appropriate evidence.

Overall

11. The auditor's responsibility for abuse for financial audits (paragraphs 4.18 through 4.20), attestation engagements (6.17 through 6.22), and performance audits (7.34) has been clarified, but no change was made to the auditor's responsibility for abuse. The changes were in response to questions received about implementing the standard on abuse.

Please comment on the clarity of the definition of abuse. Please include in your comments any specific examples of abuse you have identified, along with supporting audit reports.

12. An appendix has been added to provide supplemental guidance to assist auditors in the implementation of GAGAS. This guidance does not establish any additional auditor requirements.

Please comment on the usefulness and need for the appendix.